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SPRING 2015

Middle market business wants a mandate on tax reform

By John Brazzale
Melbourne

Business is buoyed by the leadership change for two reasons.

Firstly, in Malcolm Turnbull we have a Prime Minister who has spent a substantial period of time in commercial life and understands the issues surrounding operating a business; and secondly, now the government can stop focussing on internal ructions and start dealing with issues facing the country and, in particular, the economy.

The leadership change allows Turnbull to focus on the vision for Australia and our economy. There's an opportunity to quickly leverage the current buoyant sentiment and engage with the business community to promote the government's future plans.

Tax reform must play a key role in this Government's vision for Australia, and with it the recognition that private business is the engine room of the economy, employing 85% of all employees across Australia.

The middle market is a vital, but often overlooked, part of Australia's economy.

To date, tax reform has mistakenly focused on small taxpayers rather than privately owned groups which employ more people than all the public companies in Australia put together, and contribute well over one-third of total corporate tax revenue.

Privately owned groups incur more employment costs than all the public companies in Australia and yet contribute over 38% of total corporate tax revenue collections.

The middle market as a whole faces disproportionately high complexity and compliance costs when compared to public groups, which is holding back this vital part of Australia's economy. The middle market also faces different commercial considerations than public groups, such as limited access to finance, asset protection issues, family succession issues, information privacy, and a reduced capacity to access advice.

As the new Minister for Small Business and Assistant Treasurer, Kelly O'Dwyer will be playing a vital role in tax reform.

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Middle market business wants a mandate on tax reform

(continued from page 1)

O'Dwyer needs to ensure that tax reform provides relief for the middle market and, specifically, reviews the current rules around Taxation of Financial Arrangements (TOFA) and those complex provisions to exclude more of the middle market.

The Government must facilitate the middle market's ability to invest and employ people by providing a reduction in red tape and compliance costs, thereby making it easier overall for businesses to succeed while addressing all the reporting obligations required by various government and statutory bodies.

We sincerely hope that the Government pushes forward with tax reform, and nothing should be off the table, including the goods and services tax

Middle market business also requires clear direction about the key industries the government intends to support.

As the Prime Minister indicated, technology is a key component of our economy, alongside education. Australia enjoys a strong education sector, so let's continue to grow education but position that into a smarter economy by focussing on research and development, innovation, and advances in technology, scientific and medical research. There is a great opportunity to attract smart, talented people from overseas to supplement our own smart, talented people.

Agribusiness is another key sector, with Australia's food export market valued at $41 billion according to ABARE's latest figures, and attracting interest from both local and foreign investment. Mid-sized agribusiness organisations should focus on food and fibre by adding value to the food products that they produce, or consider leveraging off our green environment, or top-end manufacturing

Australia's role in the Asian Century is vital, with renewed attention on our Asia capable workforce. According to the report *Australia's jobs future: The rise of Asia and the services opportunity*, by 2030 the services industry could become Australia's number one export to Asia, supporting a million jobs.

The government needs to turn its attention to defining a clear vision for Australia.

In any case, the middle market looks forward to a renewed focus on the sector, with strong vision, messaging and leadership by Turnbull's Government allowing private business to invest and make considered investment decisions.

John Brazzale is the managing partner of Pitcher Partners in Melbourne.

Risk Affairs

Tips on tendering

By David Fennell
Melbourne

For organisations with medium to long term service contracts, winning and retaining these contracts is critical to their future prospects and growth.

When responding to tenders, many organisations fall down in the same areas. The six points below address some of these common pitfalls and attempt to go some way in assisting organisations in preparing quality tender responses.

Should you be bidding?

Before beginning work on the proposal you must first consider whether it is worth the time and resources responding to the tender. Producing a quality tender proposal takes significant effort, can be expensive and should be considered against the contract value and likelihood of success.

In deciding whether to respond to a tender you should consider the following:

- The level of effort required
- Your capability to complete the scope of work
- Your demonstrable experience on similar projects
- Your ability to compete on price
- Your ability to win over other potential respondents
- Your strategy and value proposition

Start earlier (start straight away)

The preparation for many tenders starts well after it ideally should have. With the day to day tasks of the organisation continuing, allocating sufficient and appropriate resources to tenders can be difficult. On top of this you may be bidding against larger competitors who have dedicated bid teams at their disposal.

Starting early allows any issues to be recognised as early as possible and should include the following activities:

- Documentation of all key dates and deadlines
- Checking of mandatory criteria
- Preparing a list of tasks required
- Assembling the bid team
- Identification of any gaps in delivering the scope of service or the bid team
- Assigning responsibilities and tasks
- Asking questions of the customer

Build the right bid team

The bid team should include a mix of people with the expertise to prepare a solution for the scope of work as well as prepare a well written, appropriately priced bid response. Most bid teams will require a project manager, technical and operational expertise, financial and commercial experts, tender writers and legal expertise.

A project manager will keep the different elements of the bid on track and work with the team to resolve issues.

Technical and operational team members understand the delivery of the scope of work required and will work with the team to develop the solution.

Financial and commercial team members will be responsible for calculating the operating, capital and financing costs required to execute the solution and the appropriate margins to arrive at pricing.

Tender writers will ensure the tender response is written in a manner that addresses all questions, is compliant with the tender requirements and is persuasive, competitive and professional.

The contract should also be reviewed by a lawyer to understand any risks and exposure from a legal perspective.

If these roles and expertise don't exist within your bid team you need to engage subcontractors or consultants.

Read the RFP, understand the RFP

The RFP needs to be read thoroughly in order to understand the requirements and the risks. In reading tender documentation the organisation must understand:

- What is required to be completed and lodged
- The scope of work required
- The evaluation criteria
- The terms of the contract and associated risks
- The calculation and timing of payments
- Any KPIs

Bidders should make every effort to get face to face with the customer. RFPs do not always communicate the real interests and issues of the customer well, which can often come out in a face to face discussion.

Understand the evaluation criteria

You may have the highest quality solution but have you understood the evaluation criteria? If the tender is focused on lowest price and your bid pitches highest quality, then you may have missed the point.

The first step in understanding the bid criteria is to check that any mandatory criteria can be met. Beyond any mandatory criteria tenders will usually have specific evaluation criteria on which the bids will be assessed. These commonly include price, experience, team members and approach. The evaluation criteria must be taken into account in formulating the bid response.

Don't neglect service variation rates

Many service based contracts request that total pricing be provided for a specified level of service as well as a per unit service variation rate should the specified service level change.

Example: the tender for a catering contract specifies that the bidder provide a lump sum annual payment for the provision of three meals a day to 200 people. Separately the tender also requires that a per person per day rate be provided should the requirement for daily meals increase.

Often the bid team will be focused on pricing the expected level of service and in the rush to meet deadlines, service variation rates are neglected and can be poorly costed. This critical error can later see a material change in service crippling an otherwise profitable contract. Alternatively, an overpriced service variation rate may see you lose out to a competitor.

More information can be found at www.pitcher.com.au.

The Australian **Children's Television Foundation**

By Kylee Byrne
Melbourne

Children, like adults, have an enormous ability to grasp new concepts and develop cognitively through entertainment. Engaging in a narrative can develop a broader perspective and build knowledge outside a child's immediate environment.

Providing our children with innovative and creative television and media production is the Australian Children's Television Foundation (ACTF), and as executive producer of a range of television series for children including *Dance Academy, Worst Year of My Life, Again! Bushwhacked, Nowhere Boys, My Place, Lockie Leonard* and *Mortified*, they are offering our children television made especially for them that reflects and further develops Australian culture.

The ACTF says that 'we should never underestimate children's desire to be informed and challenged as well as entertained'. As a national children's media production and policy hub, the organisation performs a wide range of functions in children's media including contribution to policy matters; as a distributor of and investor in Australian children's television series; as an instigator of new, innovative and entertaining children's media and as a developer of valuable screen resources for the education sector.

Recently, new programs Little Lunch and Ready For This were screened at a special event at Parliament House to celebrate the work of the ACTF. Senator the Hon George Brandis QC, Attorney-General (and also Minister for the Arts at that time) and chairman of the ACTF, Janet Holmes à Court, AC hosted 150 people with five producers also in attendance.

Holmes à Court spoke at the event, seeking much-needed support for the development of local children's content.

Pointing out that the existing regulations and funding arrangements were developed many years ago in the analogue era, Holmes à Court asked our government to improve the policy settings to ensure that we continue to make the best children's television drama for our children, particularly by recognising the ABC as a core portal for children's drama and ensuring that they have transparent KPIs around the provision of local children's content.

Holmes à Court also suggested that regulatory requirements for the commercial free-to-air and pay TV networks should recalibrated.

In the meantime, Australian children are enjoying the latest fare from the ACTF. Launching to critical acclaim earlier this year, Little Lunch inspired Sunday Age journalist Melinda Houston to say 'it's quite possible that the best of Australian children's television is actually better than the best of our grown-up television.'

Pitcher Partners has been working with ACTF since 1984, proudly providing high quality assurance and advisory services to the people who are entertaining and educating our nation's very best asset – our kids.

Photo: Little Lunch

Photo: Janet Holmes à Court

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ADVOCACY

Crowd sourced equity funding

By Alexis Kokkinos
Melbourne

Access to capital is a constant challenge for businesses in the middle market, and the evolution of crowd sourced funding is a rapidly evolving means to assist businesses meet this. Recently, Minister for Small Business Bruce Bilson released a Consultation Paper outlining a policy that will allow public companies access to Crowd Sourced Equity Funding (CSEF).

Pitcher Partners welcomes this new opportunity for existing businesses and start-ups to raise their capital. We are always supportive of reforms aimed at helping businesses, and making CSEF a viable and effective source of capital would be to the advantage of the middle market.

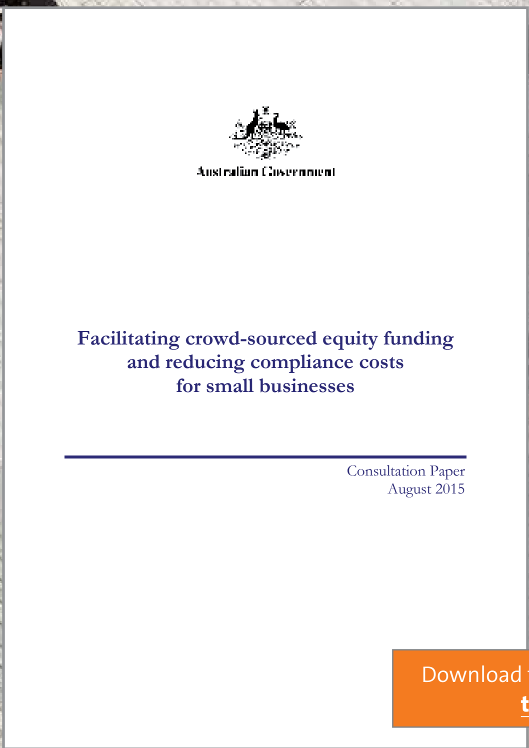
Broadly, the Consultation Paper proposes that CSEF be available for public companies to raise up to $5 million during a 12 month period, investment caps for investors of $10,000 per offer and $25,000 per annum in aggregate, and all under simplified disclosures and compliance. More interestingly for Pitcher Partner clients, feedback is sought on extending the availability of CSEF to proprietary companies and amending various existing shareholder and capital raising rules to facilitate this.

Pitcher Partners applaud the initiative to provide private businesses with access to CSEF, however have provided feedback to Treasury to make the proposal more relevant and useful to the middle market. The changes we are seeking on behalf of our clients include:

- Extending the eligibility criteria for proprietary companies to access CSEF to companies with an annual turnover or gross assets up to $25 million, rather than the proposed $5 million limit, which is considered too low a ceiling.
- Allowing CSEF raisings of up to $5 million, rather than the proposed $1 million.
- Maintain the balance between simplifying compliance, and protection of investors by retaining an independent oversight of financial reporting to investors.

Pitcher Partners is fully supportive of Government measures to permit CSEF to small to medium enterprises.

Pitcher Partners will continue to pursue the adoption these changes to allow CSEF to be a viable alternative for funding of the middle market and look forward to exploring the opportunity with our clients once Government progress the proposal.


Australian Government

Facilitating crowd-sourced equity funding and reducing compliance costs for small businesses

Consultation Paper
August 2015


FOREWORD

The Government is pleased to release this consultation paper, which further delivers on our 2015-16 Budget commitments.

The $5.5 billion *Growing Jobs and Small Business* package in the 2015-16 Budget will encourage entrepreneurship and the development of ideas that will translate into economic opportunity, jobs and success. It provides incentives for small businesses to invest, hire and grow.

The package includes the Government's commitment to introducing a legislative framework to facilitate crowd-sourced equity funding (CSEF) for public companies. Introduction of CSEF will improve the funding options for small businesses, particularly those in the crucial early growth stages. The Government has already conducted extensive consultations on CSEF and has listened to the feedback provided by stakeholders.

This consultation paper outlines for the first time the key elements of the Government's CSEF framework for public companies. Further details will be available in draft legislation that will be released for public comment later in the year. Introduction of legislation to Parliament is expected to follow in the Spring sittings.

Feedback from the CSEF consultation process indicated substantial stakeholder support for allowing proprietary companies to access CSEF, in addition to public companies. As proprietary companies have greater restrictions on the way they can raise capital, this consultation paper seeks feedback on whether proprietary companies should also be able to access CSEF and outlines a potential model.

The *Growing Jobs and Small Business* package also includes measures to reduce red tape and other impediments to small business growth. The Government recognises that regulatory burdens can stifle innovation and growth, and that more can always be done to free up time and resources for small businesses to direct into managing and ensuring the success of their business endeavours.

This consultation paper seeks the views of small businesses, industry, professional bodies and all interested parties to identify which areas of the *Corporations Act 2001* could be amended to reduce the burdens on small proprietary companies and make capital raising more flexible.

I encourage all interested stakeholders to provide comment on the matters raised in this consultation paper. The deadline for submissions is Monday, 31 August 2015.

The Hon Bruce Billson MP
Minister for Small Business

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Download the *Consultation Paper* at **treasury.gov.au**

CHANGE MANAGEMENT

The Bottom Line – *differentiate with customer centricity*

By Andrew Killen and Radhika Shah
Melbourne

Industries across all sectors are seeing an increase in competitiveness. Relying on a good product or service is no longer enough to guarantee repeat business.

Today's customers select products and services from all over the world – the choices available are enormous and customer loyalty is hard to win. Today's customer is more informed, more demanding and has ever increasing expectations. To remain competitive, organisations across all industries are finding that they need to change their strategy from a product-centric model to a customer-centric model. Organisations that can provide a consistently great customer experience gain significant competitive advantages and can thrive in today's competitive landscape.

Additionally, many industries are being forced to change and make a customer-centric strategy a priority. Recent regulatory and legislative changes such as the National Insurance Disability Scheme (NDIS) and Consumer Directed Care (CDC) highlight the need for health and care organisations to have customers at the heart of decisions, processes, marketing and system design.

Utilities companies are under immense pressure due to fierce competition in the energy sector (enforced by Australian Competition and Consumer Commission), the introduction of Fairer Water Bills for water companies and the rise of online price comparison engines for telecommunications providers.

A customer-centric organisation captures enough data to identify its customers as unique individuals. It knows who its highest value customers are. It also knows who its lowest value customers are and focuses its products, services and attention accordingly.

2020 By 2020, customer experience will overtake price and product as the key brand differentiator. *(Customers 2020 Report)*

10% A 10% increase in customer retention levels result in a 30% increase in the value of the company. *(Bain & Co)*

A customer-centric organisation understands its customers. It analyses the information it holds about its customers, slicing and dicing it to allow the organisation to segment its customer base in many different ways. Based on their particular criteria, customers may be segmented depending on their value to the organisation, their needs, their behaviours and buying patterns, their demographics, whether they pose a flight risk (and whether this matters) and so on.

Customer Centricity **Is**	• Using customer data to better understand and segment your customer base • Identifying your best customers • Focussing on products and services for your best customers • Using Customer Lifetime Value (CLV) to segment your customers
Customer Centricity **Is Not**	• Focussing on the "average" customer • Courting and retaining low-quality customers • Underspending on acquiring high-quality customers

Source: Monetate (http://content.monetate.com/h/i/12311808-what-does-it-mean-to-be-customer-centric)

Organisations investing in business intelligence tools to interrogate the data they hold about their customers are on the path towards gaining a considerable competitive advantage. These organisations will have deeper insights into their customers, which enables them to approach them with tailored and focused product offerings, communications, behaviours and anticipate changes in customer trends. This in turn, will help build longer term relationships and customer loyalty.

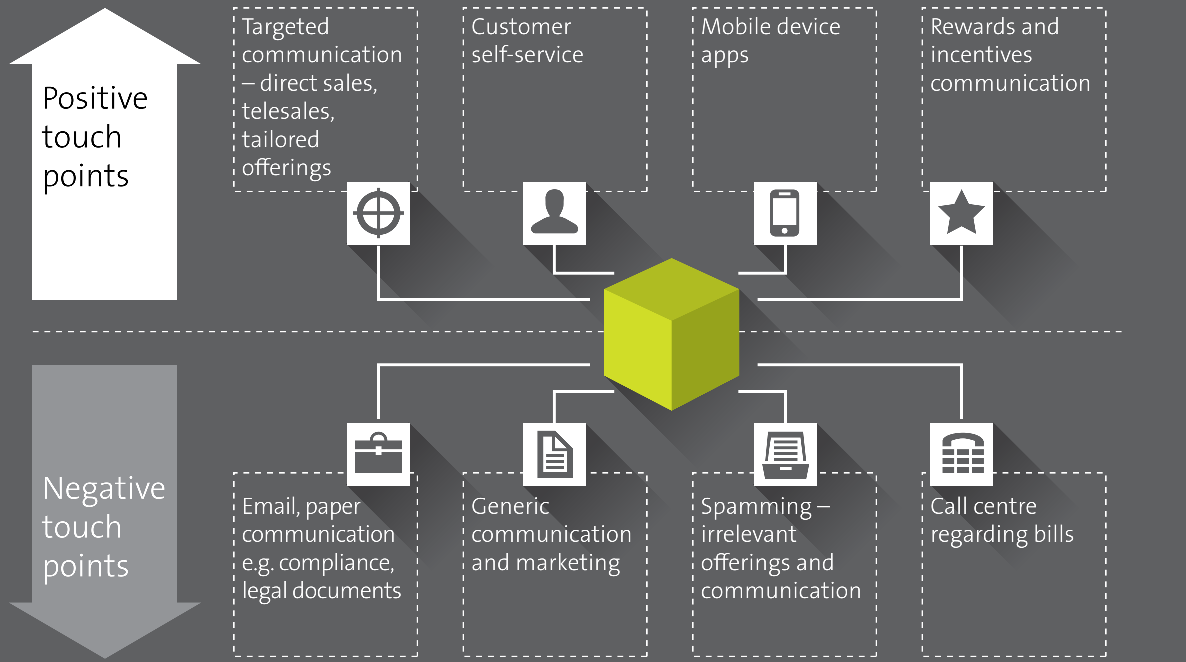
Not only do customer-centric organisations increase customer loyalty and longevity, they also experience greater employee retention. The greater focus on customers (both internal and external) makes such organisations better places to work.

The impact

The overall customer experience is influenced by customers' direct and indirect interactions with an organisation; both physical and digital touch points. Customer interactions in a traditional product-centric organisation are perceived as negative touch points (e.g. "spam") while those in a customer-centric organisation are perceived as positive.

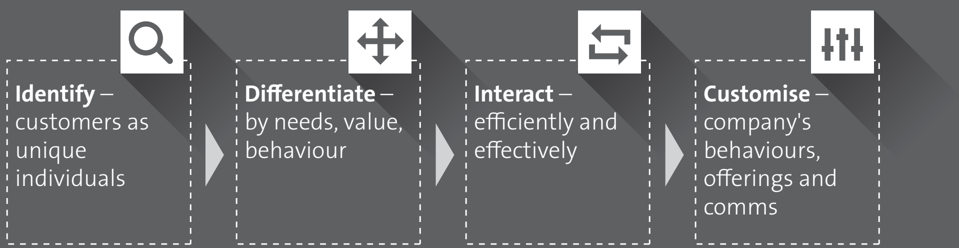
12 The amount of positive customer experiences it takes to make up for one negative experience. *(Parature)*

Positive and Negative Touch Points



The how

The challenge for organisations is how to transition from existing product-centric models to those that deliver what customers want. Organisations need to align their strategy with the customer relationship management lifecycle in the diagram below.



A significant change in the organisation's culture is required. Employees need to have a solution mindset which requires them to change from selling products to solving problems. Organisations need to empower their customers (internal and external).

Information technology is a great enabler for a customer-centric organisation. Implementing customer relationship management (CRM) software, customer self-service portals, business intelligence and data analytics systems will enable organisations to capture, analyse and utilise customer data.

Customer-centric organisations leverage customer data to form deeper insights into their customers than traditional organisations. They use these insights to tailor their services and communications to customers ensuring every interaction with the customer is positive and welcomed. In many circumstances this changes their relationship from a 'vendor' to a 'partner'. It's time for organisations to think creatively in this area to differentiate themselves from competitors!

Pitcher Partners Consulting offers practical steps to guide organisations through the customer-centricity journey.

Source: Pitcher Partners Consulting

What's New

For comments on this edition or if you wish to be removed from the Contact mailing list please email us at **editor@pitcher.com.au**. You can view Contact electronically at **www.pitcher.com.au/insights/contact-magazine**.

Pitcher Partners and Moore Stephens Sydney to merge

Sydney firms Pitcher Partners and Moore Stephens have announced they will merge their practices effective 31 October 2015.

Both middle market specialists, the combined firm will operate as Pitcher Partners and be located in the iconic Pitcher Partners offices at the MLC Centre in Martin Place Sydney. Rob Southwell, the current Moore Stephens Managing Director, will lead the combined firm as Managing Director. The combined firms will include 28 partners and 240 staff, more than doubling their individual firm sizes, targeting $48m in revenues in FY2016.

Carl Millington, Managing Partner of Pitcher Partners Sydney said, "We have been looking for a quality firm to merge with in the Sydney market for some time. The importance of cultural alignment and a shared vision are paramount – rather than growth for growth's sake. Moore Stephens Sydney shares our vision and culture. We have many clients in similar industries that will benefit from our shared expertise and increased resources and our staff will benefit from the broader access and exposure."

Don Rankin, National Chair of the Pitcher Partners Association said, "This is a tremendously exciting opportunity for Moore Stephens and Pitcher Partners in Sydney and for the entire Pitcher Partners Association. The greater size and strength we will now have in Sydney will improve our competitiveness and provide a platform for growth. It will provide clients with a quality Australian firm with enormous depth that is focussed on the middle market."

Going electronic

Prefer to receive your publications via email? Contact is going electronic in 2016, making it easier for you to access the magazine in the office or from your smart phone. **If you'd prefer to receive a hard copy in the post, please let us know.**

Tax diary

21 October 2015	• Lodgement and payment for September monthly BAS/IAS. • Lodgement and payment of annual PAYG instalment notices. • Lodgement and payment of first quarter 2015/2016 year PAYG instalment activity statement for head companies of tax consolidated groups.
28 October 2015	• Lodgement and payment of first quarter 2015/16 quarterly BAS/IAS. • Payment of superannuation guarantee contributions for the first quarter of the 2015/16 year. • Lodgement and payment of annual activity statement for TFN withholding for closely held trusts where amounts from payments to beneficiaries have been withheld during the 2014/2015 year.
31 October 2015	• Lodgement of PAYG withholding annual report where ABN not quoted for the 2014/15 year. • Lodgement of PAYG withholding annual reports (interest, dividend and royalty payments paid to non-residents) for the 2014/15 year. • Lodgement of Annual investment income report for the 2014/15 year. • Quarterly TFN report for TFNs quoted to closely held trusts by beneficiaries in the first quarter for the 2015/16 year. • Income tax returns for all entities if one or more prior year returns were outstanding as at 30 June 2015.
21 November 2015	• Lodgement and payment for October monthly BAS/IAS.
1 December 2015	• Payment of 2015/2016 income tax for taxable large/medium taxpayers, companies (including head companies of tax consolidated groups with a member that is a medium/large business) and superannuation funds. Tax returns for large/medium taxpayers, companies and superannuation funds are due for lodgement by 15 January 2016.
21 December 2015	• Lodgement and payment for November monthly BAS/IAS.

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